



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 25, 2011

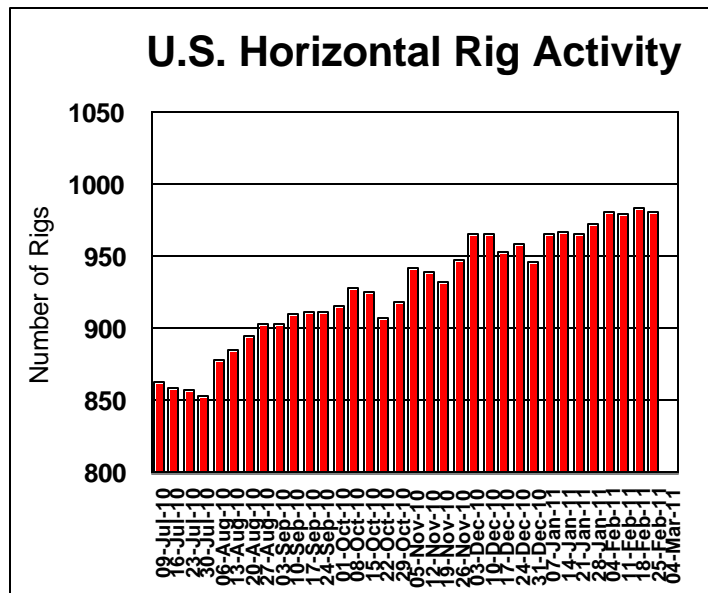
NATURAL GAS MARKET NEWS

North American

Baker Hughes reported this afternoon that the number of natural gas drilling rigs operating in the United States rose for the first time in four weeks, increasing by 1 from the previous week to 906 rigs. Meanwhile the number of horizontal rigs operating in the U.S. fell by three, off of last week's record highs to 981 rigs.

Encana Corporation said today that it has reached an agreement with Northwest Natural Gas Company to form a joint venture at its Jonah natural gas field in Wyoming. Northwest Natural Gas will pay \$45 million to \$55 million per year over five years to cover the cost of drilling new wells in parts of the Jonah field for a total expected investment of \$250 million. In exchange for the funding of the drilling Northwest Natural Gas will earn an interest in some sections of the field. Northwest Natural said that the gas from the joint venture would supply 8-10% of its customer's annual needs over the first 10 years of the agreement. The deal is expected to close May 1st.

Analysts at Stephen Smith Energy Associates said in a report today that the recent domestic production numbers suggest that Lower 48 sequential gas production growth will continue at least through mid 2011 if not longer. They estimate that domestic gas production will average 61.5 bcf/d in



Generation Outages

NPCC – Entergy's 1025 Mw Unit #3 at the Indian Point nuclear plant has exited its recent outage and was at 2% power this morning. The unit went off line On Tuesday.

OPG's 515 Mw Pickering #4 nuclear unit was shut Thursday afternoon.

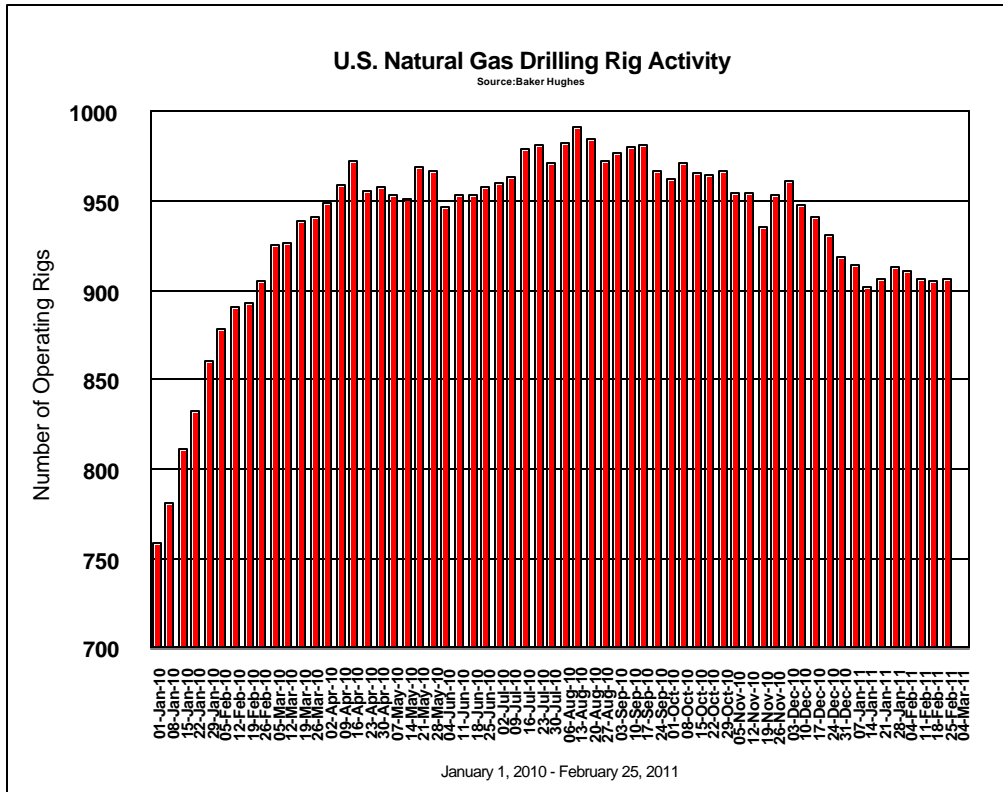
The NRC reported this morning that some 92,660 Mw of nuclear generation capacity is online, basically unchanged from yesterday and some 0.1% lower than the same day a year ago.

2011. Even though the group expects lower storage levels from a year ago through June due to a normal spring this year versus below normal cooling and heating degree days last year, they are still predicting a lower price by June 30th than a year ago due to its production growth expectations and an expectation that this coming summer will not be as warm as a year ago. They see the net effect for the whole year will be a 1.1 bcf/d over supply of gas than the 2010 supply demand balance.

International

Sinopec announced today that has signed a preliminary agreement to buy 4.3 million tones of LNG per year from Australia Pacific

for a 20-year term. If the deal is finalized Sinopec would receive a 15% share in the project, reducing the shareholdings of its co-owners, ConocoPhillips and Orion Energy.



According to local port officials the LNG tanker the Bluesky is scheduled to arrive at the Dragon LNG terminal on March 4th from Trinidad. Port officials at the South Hook terminal said today that they expect the LNG tanker the Al Sadd to arrive on March 4th from Qatar.

Mitsubishi Corporation said today that it has signed a memorandum of understanding with Korea Gas

Corporation on a strategic partnership in the natural gas business, with a particular focus on the LNG market.

According to company officials at Tasweeq, Qatar should export around 10 million tones of LPG in 2011, up from about 8 million tones sold in 2010. Of the sales this year 60% will be in propane with the remainder in butane.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	613,700	\$3.807	(\$0.023)	(\$0.200)	(\$0.254)	\$0.161
Chicago City Gate	738,900	\$3.949	(\$0.055)	(\$0.058)	(\$0.239)	\$0.132
NGPL- TX/OK	1,094,700	\$3.707	(\$0.026)	(\$0.300)	(\$0.210)	(\$0.136)
SoCal	366,300	\$3.886	(\$0.014)	(\$0.121)	(\$0.198)	\$0.024
PG&E Citygate	800,900	\$4.057	(\$0.011)	\$0.050	(\$0.195)	\$0.186
Dominion-South	557,700	\$3.958	\$0.010	(\$0.049)	(\$0.174)	\$0.095
UTrade Weighted	20,183,000	\$3.890	(\$0.070)	(\$0.117)	(\$0.25)	\$0.161

Five utilities in South Korea are reportedly have tendered to buy LNG under long term deals starting with delivery in 2015 possibly for 2-3 million tones per

year. The utilities, which have been securing their gas through KOGAS, may find it hard to secure the LNG through the tender process cheaper than KOGAS due to KOGAS's purchasing power as the largest corporate buyer of LNG in the world.

ELECTRIC MARKET NEWS

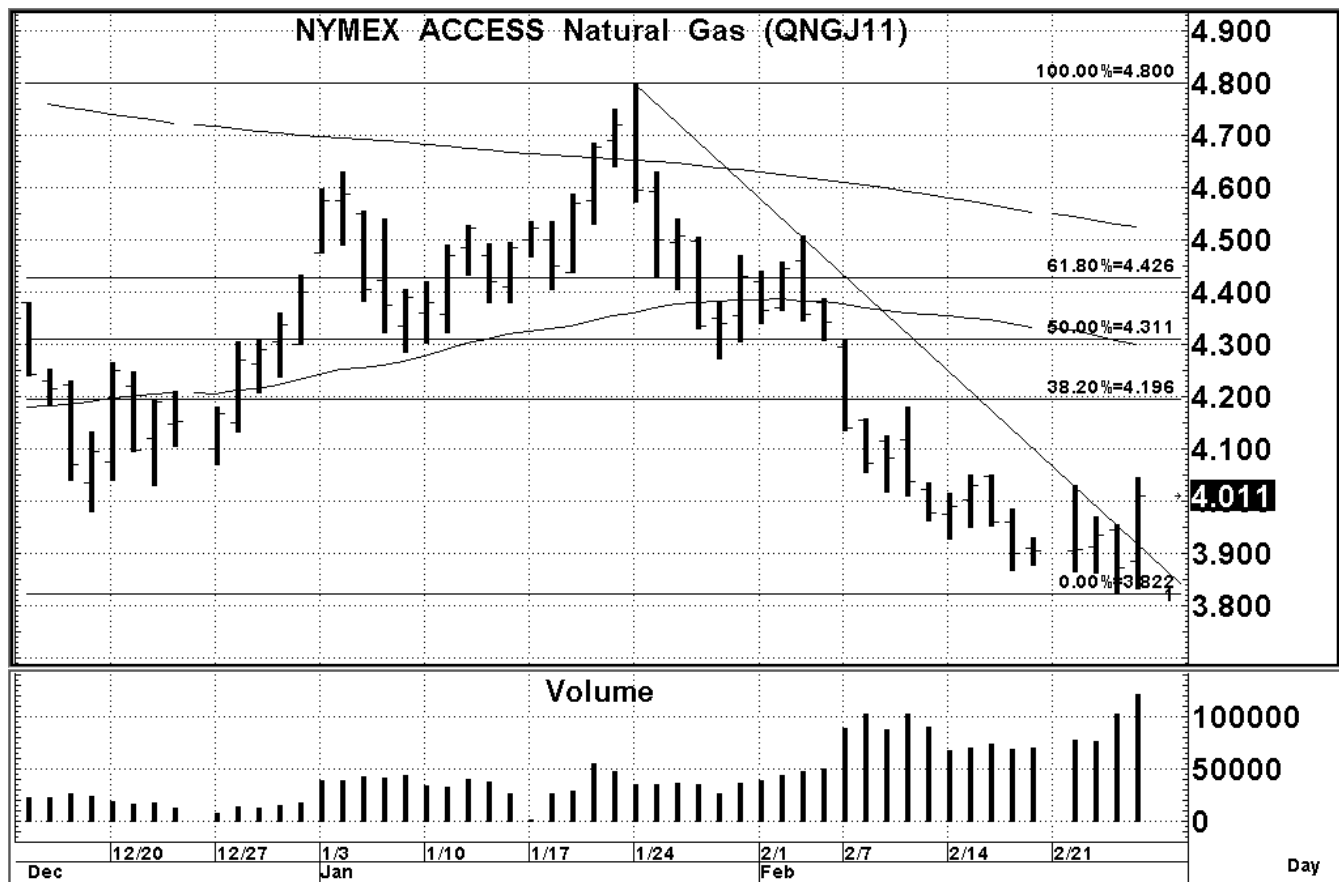
Genscape reported today that it has estimated U.S. coal consumption for this week fell 3% from the prior week and was 14% less than the same week a year ago.

The EIA reported late Thursday that for the week ending February 19th, the production of coal in the United States reached 21.624 million short tons, up 4.4% from the prior week and up 4.4% from the same week a year ago. Year to date coal production in the U.S. is running 3.3% higher than a year ago.

ECONOMIC NEWS

The US Commerce Department reported that the US economy grew slightly at the end of 2010 but the growth was lower than previously thought. GDP increased at an inflation adjusted annual rate of 2.8% in the fourth quarter. Economists expected GDP to be revised up to a 3.3% growth rate in the government's second estimate for the fourth quarter of 2010. The GDP report showed that the price index for personal consumption expenditures or PCE, excluding volatile food and energy items, increased an annualized rate of just 0.5% in the fourth quarter. The overall price index for PCE increased by 1.8% in the fourth quarter following a 0.8% increase in the third quarter.

The Thompson Reuters/University of Michigan survey's final February reading on the overall index on consumer sentiment came in at 77.5, up from 74.2 in January. It was at the highest level since January 2008.



The US Commerce Department said US building permits for January were revised to down 10.2% from December to a seasonally adjusted rate of 563,000. It was originally reported as declining by 10.4% to a seasonally adjusted rate of 562,000.

Richmond Federal Reserve President Jeffrey Lacker said he did not think oil at \$100/barrel or gasoline over \$3/gallon would derail the US economic recovery.

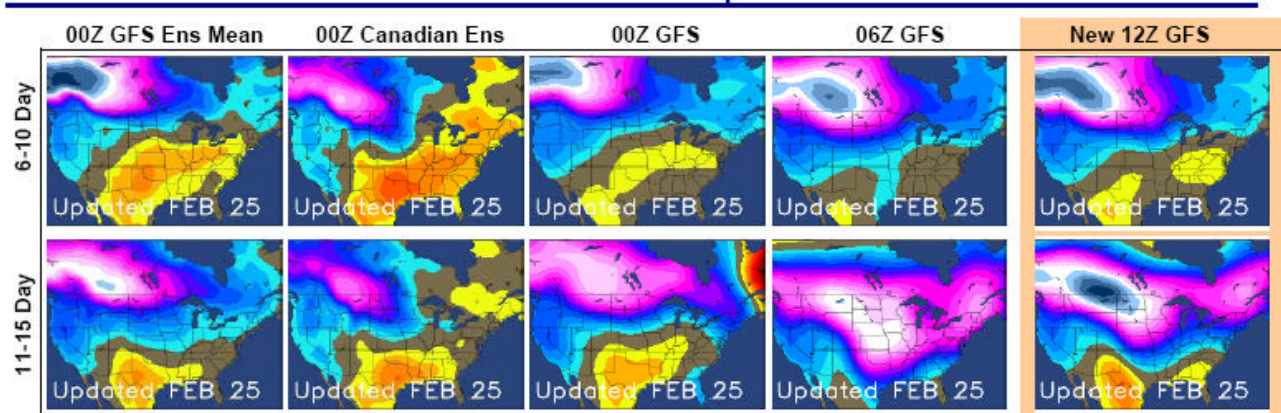
An Indian Finance Ministry report stated that a slowdown in industrial output, decline in imports and high inflation are factors that could slow down the country's growth momentum in the short run. India's Finance Ministry also stated that India's economy is expected to grow around 9% in the next fiscal year starting April 1st. It estimates that growth in the current fiscal year ending in March is 8.6%.

Bank of Japan Governor Masaaki Shirakawa said strong growth in emerging economies is basically behind the recent increase in commodity prices. However he stated that advanced economies' monetary easing was also accelerating the increase in commodity costs.

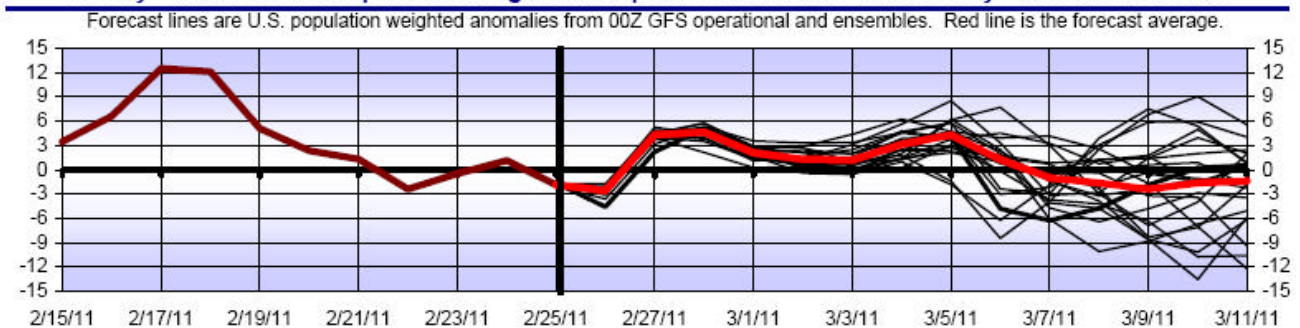
MARKET COMMENTARY

The natural gas futures market appeared to go counter to the cash market today. While the cash market was weaker on expected lighter demand for the upcoming weekend and early next week, futures prices staged a remarkably strong rally posting gains of over 13 cents. Future prices early this morning found support in front of yesterday's lows and at mid morning broke out to the upside on what appeared to be a technically inspired short covering as a result of prices breaching a month old trend line at \$3.921. Prices settled on the day up over \$4.00 for the first time in the April contract in ten days as it posted its strongest one day gain since January 3^d. Volume today was surprisingly good for a Friday, as the April contract on Globex traded over 121,000 futures contracts today.

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



We feel though even with a supportive weather forecast this afternoon for the next 11-15 day period, the slightly warmer temperatures next week coupled with the fact that colder than normal temperatures in March do not have the same market impact as they do in January this market does not have the fundamental support for significant follow through buying. As a result we would probably look to be a scale up seller of the April contract starting at \$4.05 up to \$4.20. We see initial resistance on Monday starting at \$4.051 followed by \$4.18, \$4.196, \$4.30, \$4.426 and \$4.50. Support we see at \$3.883 followed by \$3.83-\$3.82, \$3.776, \$3.71\$3.656 and \$3.41.

This afternoon's Commitment of Traders Report showed that for the week ending Tuesday, commodity funds continued to build their net short position by yet another 13,200 lots and held their largest net short position over the last 14 months.

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